



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 8, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **REVIEW OF HOMES OF HOPE – A FOSTER FAMILY AGENCY AND A
GROUP HOME CONTRACTOR**

Attached is the report on our review of Homes of Hope's (HOH or Agency) fiscal operations for the period July 1, 2000 through June 30, 2001. The Agency is licensed to operate both a Foster Family Agency (FFA) and a Group Home (GH). For the period of our review, the Agency had approximately 100 certified homes with approximately 185 children placed in those homes and one certified group home with six children placed in the home.

During the period of our review, the Agency received \$2,914,634 in FFA funds from the Department of Children and Family Services (DCFS) and paid \$1,444,808 of the FFA funds directly to foster parents. During the same period, the Agency received \$265,004 in GH funds from DCFS. The Agency's administrative office is located in the Fifth Supervisorial District.

Scope

The purpose of our review was to determine whether the Agency complied with its contract terms and appropriately accounted for and spent foster care and group home funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA and GH foster care funds.

Summary of Findings

We identified \$372,443 in expenditures that were not supported, or were inadequately supported by original receipts and time records and \$73,321 in expenditures that were ineligible under federal or State guidelines or the County's contract. Approximately one

month before we initiated our audit, the Agency experienced a fire which destroyed its administrative office. The Agency's management stated most of the documentation related to its FFA and GH contracts with the County was stored in the administrative office. The Agency management contends that in the majority of instances where the expenditures were not supported or inadequately supported, the records were previously available, but were destroyed in the fire. Of the total, \$234,490 pertained to missing employee timecards. The Agency was given the opportunity to reconstruct the records or obtain duplicate invoices from vendors. Although the Agency stated that they attempted to obtain duplicate records from vendors, in general, duplicates were not provided for our review. HOH opted not to attempt to reconstruct timecards. It appears in some cases this may not have been practical, or possible. In other cases, it appears obtaining documentation would be reasonably possible.

We also noted several areas in which HOH needs to strengthen its internal controls. These areas include disbursement/accounting, revenue and payroll procedures. These deficiencies contributed to the ineligible expenditures discussed above. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve questioned costs and if appropriate, collect any disallowed amounts. In addition, DCFS needs to ensure that the Agency's management takes the appropriate corrective actions to address the recommendations in this report and monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with the Agency's management on August 28, 2003. The Agency's management has agreed to provide DCFS with a response and a corrective action plan within 30 days of this report. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Homes of Hope's management and staff for their cooperation during our review.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:MM
Attachment

C: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Lloyd W. Pellman, County Counsel
Department of Children and Family Services
David B. Sanders, Ph.D., Director
Paul Freedlund, Bureau Chief, Finance and Administration
Genevra Gilden, Chief, Quality Assurance Division
West Covina Foster Family Agency aka Homes of Hope.

Sukhwinder Singh, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audits Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Violet Varona-Lukens, Board of Supervisors Executive Office
Public Information Office
Audit Committee Members
Commission for Children and Families

WEST COVINA FOSTER FAMILY AGENCY AKA HOMES OF HOPE
REVIEW OF FOSTER FAMILY AGENCY AND GROUP HOME
CONTRACTS

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Homes of Hope (HOH or Agency), to provide the basic needs and services for foster children placed in the Agency's care. HOH is licensed to operate both a Foster Family Agency (FFA) and a Group Home (GH). During our review period, July 1, 2000 to June 30, 2001, HOH had approximately 100 certified homes with approximately 185 children placed in those homes and one certified group home with six children placed in the home. The Agency's administrative office is located in the Fifth Supervisorial District.

Under the provisions of the contracts, the County pays HOH a monthly rate for each child based on the GH Rate Classification Levels and the FFA Treatment Rate Notification Letter provided by the California Department of Social Services (CDSS). During our review period, HOH received a monthly rate of \$1,467 to \$1,759 per foster child served by the FFA and between \$4,720 and \$4,992 per child placed in the GH. During this period, the Agency received \$2,914,634 in FFA funds and \$265,004 in GH funds from DCFS. Also, during this period, the Agency was required to pay between \$595 and \$753 a month to the foster parents. The Agency paid \$1,444,808 to the foster parents during this period.

APPLICABLE REGULATIONS AND GUIDELINES

HOH is required to operate its GH and its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- GH and FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS - MPP)
- California Code of Regulations, Title 22 (Title 22)

FIRE DAMAGE TO AGENCY'S RECORDS

On September 26, 2001, we advised HOH that we would be conducting an audit of its fiscal operations. At that time, HOH management advised us that four days earlier, the Agency had sustained a fire in its Administrative Office that destroyed most of its accounting records.

HOH indicated that it would contact its banking institution and vendors to try and provide us with supporting documentation for our review. While the Agency did contact its bank and obtained copies of bank statements and cancelled checks, in general the Agency provided us with very few copies of supporting documentation from vendors. HOH decided not to try to reconstruct employee timecards that were destroyed in the fire. The Agency's financial statements, general ledger, and other reports were available for review since HOH utilizes an outside consultant to generate and maintain its financial records. It should be noted that the Agency did not report the fire incident to DCFS as is required by the A-C Handbook.

An incident report from the West Covina Fire Department documenting the results of their investigation into the cause of the fire concluded that the fire was an accident caused by a faulty electrical outlet.

REVIEW OF EXPENDITURES

Our review disclosed a total of \$445,764 in unsupported, or inadequately supported and ineligible expenditures. Details of these expenditures are discussed below.

Unsupported / Inadequately Supported Costs

The A-C Handbook states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, timecards, travel logs, contract and loan agreements and/or other documentation, and that unsupported expenditures will be disallowed upon review.

HOH did not have adequate documentation to support foster care expenditures totaling \$372,443. In most instances, HOH management stated that these records were among those that were destroyed by the fire in the Agency's Administrative Office. We gave HOH management the opportunity to reconstruct the records or to obtain duplicate records from vendors, etc. The Agency decided not to attempt to reconstruct time records. The Agency indicated that they attempted to obtain copies of destroyed documentation from its vendors, but only a few documents were obtained and presented to us for review. Specifically, we noted:

- \$205,740 in salary payments to the Executive Director, Bookkeeper, Transporter and nine of 12 other Agency employees. The Agency did not provide supporting documents such as timecards signed by the employee and approved in writing by a supervisor. Agency management indicated that the timecards were destroyed by the fire.

- \$28,750 in salary payments made during our review period to the former Assistant Executive Director. This individual was charging HOH as a full-time employee. However, the Executive Director acknowledged that this employee was employed on a full-time basis elsewhere. Agency management indicated that this individual worked nights and weekends at HOH. However, due to the lack of documentation (i.e., timecards) to support the hours worked with HOH, we could not substantiate management's claims.
- \$57,032 in non-payroll expenditures for items such as clothing, book subscriptions, kitchen supplies, household items, personal and incidental expenses, building and equipment supplies, food, medical and dental insurance, equipment repairs, advertising, telephone bills, utilities, office supplies, mileage and travel, gift certificates, allowances and a trip to Disneyland.

According to HOH management, these expenditures were incurred on behalf of the children placed in the GH, FFA foster children and foster parents, and Agency staff. However, the Agency did not provide adequate supporting documentation such as itemized receipts to support these claims. HOH management indicated that these records had been destroyed by the fire.

- \$29,095 in vehicle expenditures, including a down payment, lease payments, gasoline, repairs and maintenance, insurance, and miscellaneous expenditures for the three Agency-owned vehicles. Management indicated that two of the three vehicles were driven to and from the Executive Director's and the Transporter's personal residences. Because the Agency never maintained mileage or travel logs to support these vehicle expenditures, we were unable to determine the extent to which the vehicles were used for business and/or personal purposes. There should be some pro-ration of these costs between business and personal use.
- \$36,401 in monthly lease payments for two facilities located at 3605 Long Beach Boulevard and 3807 Wilshire Boulevard. According to management, these facilities serve approximately 40 foster children. Agency management did not provide us with a copy of the lease for these facilities.
- \$2,521 in expenditures for property taxes. The Agency leased several facilities during the audit period and none of the lease agreements we reviewed required the Agency to pay the property taxes on the leased property as a condition of the lease. Because the Agency did not have documentation to support the property tax payments, we question whether they were FFA/GH related expenditures.
- \$12,904 in payments to nine independent contractors. The Agency did not provide supporting documentation to substantiate payments made, such as invoices or contract agreements that document the agreed upon compensation rate, type of service to be provided and period of service. The Agency's management stated that these records were destroyed in the fire.

Ineligible Expenditures

A-C Handbook states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable. Our review disclosed the following ineligible expenditures totaling \$73,321:

Shelter Costs

During our review period, the Agency operated five facilities. The facilities are located at:

- 1) 1107 South Glendora Avenue, West Covina, CA (GH & FFA Headquarters)
- 2) 1018 South Glendora Avenue, West Covina, CA (FFA Sub-Office)
- 3) 3605 Long Beach Boulevard, Long Beach, CA (FFA Sub-Office)
- 4) 3807 Wilshire Boulevard, Los Angeles, CA (FFA Sub-Office)
- 5) 1162 Indian Summer Avenue, La Puente, CA (Group Home)

The Executive Director and the former Assistant Executive Director, who are husband and wife, owned three of the facilities (Number 1, 2, and 5 above), which they leased back to the Agency. Our review of the shelter costs related to these five facilities leased by the Agency, disclosed \$47,801 in ineligible expenditures as follows:

- \$33,075 for the down payment and escrow payment made by the Agency in June 2001 for the purchase of the group home located at 1162 Indian Summer Avenue. Prior to this purchase, the Executive Director and the former Assistant Executive Director owned this facility. Per the Circular, if a related party transaction occurs, then approval from DCFS must be obtained. The Agency did not obtain DCFS approval for this related-party transaction.
- \$14,726 related to the monthly lease payments on a two story facility located at 1107 S. Glendora Avenue. Agency management stated that during the audit period, the Agency occupied only the first floor of the facility. According to the Assessor's records, total usable space on the first floor of the facility is 3,466 square feet. However, the Agency computed its lease cost based on 5,000 square feet. Accordingly, we are questioning lease costs associated with the 1,534 square feet (5,000 sq. ft. – 3,466 sq. ft.) charged to the FFA that is in excess of the maximum usable space on the first floor.

Legal Fees

\$22,187 in legal fee payments to various law firms made with Agency GH and FFA funds. The Agency indicated that the expenditures were incurred to defend against two sexual harassment lawsuits involving its employees. We contacted HOH's insurance agent who advised us that the Agency's Directors and Officers Liability policy would provide coverage for attorneys' fees and any damages on the sexual harassment claims filed against the Agency. Since the Agency's insurance policy provides coverage for attorney's fees, we are questioning this expenditure.

Penalties and Interest

\$3,333 in various penalties and interest charges during the period of our review, including payments to Los Angeles Superior Court (Citrus Court). The A-C Handbook states that the fines, penalties and interest costs are not allowable under any circumstances.

Recommendations**DCFS management:**

- 1. Resolve the \$445,764 in unsupported/inadequately supported and ineligible expenditures and, if appropriate, collect any disallowed amounts.**
- 2. Ensure that the Agency does not use foster care funds to pay for the mortgage on the group home sold to the Agency unless the sale is approved by DCFS.**

To demonstrate the ability to appropriately account for group home and foster family agency funds and administer these programs in compliance with the terms of its agreement with the County, the Agency should implement the following recommendations:

Recommendations**Homes of Hope management:**

- 3. Maintain adequate supporting documentation for all foster care expenditures, including original itemized receipts, or invoices.**
- 4. Ensure that foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA or GH.**
- 5. Maintain travel logs to adequately support vehicle expenditures.**

Investment of Foster Care Funds

As of July 1, 2000, the Agency had a total of \$118,135 invested in mutual funds. Since the Agency deposits revenues from all sources into the same bank account, we were not able to determine what portion of the invested funds was received from Los Angeles County. However, Los Angeles County is the Agency's single largest funding source. During the review period, about 85% of the Agency's revenue came from Los Angeles County. Therefore, it is likely that a significant portion of the funds invested were received from the County.

During the review period, HOH incurred losses on its mutual fund investments totaling \$30,953, apparently due to changes in market conditions. Prior to our audit period, the value of these investments had actually increased by approximately \$48,000 over their initial acquisition cost. Accordingly, HOH's losses during the audit period did not result in a loss of the County Funds initially invested by HOH in mutual funds. However, the FFA Contract specifies that the Agency is to use all foster care monies "for the benefit of the placed children and their families." Investing funds where the outcome of the investment is uncertain, and there is a significant potential of losses, is inappropriate and not "for the benefit of the placed children and their families."

In accordance with the requirements of their contract with the County, HOH should discontinue its practice of investing foster care funds in investments where there is a risk of loss.

Recommendations

Homes of Hope management:

- 6. Discontinue the practice of investing foster care funds in investments where there is a potential risk for loss.**

Contract Compliance and Internal Controls

Our review disclosed several contract compliance issues and internal control weaknesses. DCFS should ensure that HOH management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure that these corrective actions result in permanent changes.

Revenue Procedures

We noted the following deficiencies in the Agency's revenue procedures:

- The Agency does not keep a daily attendance log for residents as required in its contract with the County. As a result, we could not determine the number of days children were placed with the Agency and whether the amounts paid to the Agency were correct.
- The Agency did not retain duplicate itemized deposit slips as required by the A-C Handbook. These documents are necessary to facilitate verifying that funds were properly deposited into the Agency account and the composition of the deposit. The Agency management indicated that the deposit slips were destroyed by the fire.

Recommendations

Homes of Hope Management:

- 7. Maintain a daily attendance log for residents to ensure amounts paid to the Agency are appropriate.**
- 8. Maintain duplicate itemized bank deposit slips/receipts as required by the A-C Handbook.**

Disbursement Procedures

We noted several deficiencies in the Agency's disbursement procedures during our review.

- The Agency does not always adequately document whether expenditures benefited Agency children. Where appropriate, the Agency should document the names of the children receiving the items (or services) on the corresponding invoices/receipts, or on an issuance log. In all other instances, the Agency needs to utilize a document such as an expenditure distribution form, documenting the portion of the expenditure benefiting the FFA, the GH, etc.
- The Agency only requires the Executive Director's signature on its checks. To ensure that disbursements are appropriate, the Agency should require two signatures on checks issued for material amounts (i.e., over \$500).
- Of the 64 non-payroll transactions selected for review, the Agency was only able furnish us with supporting documentation related to 17 transactions. None of the expenditure documents related to the 17 transactions were marked "paid" or otherwise cancelled. In addition, seven (41%) of the 17 documents were not referenced to their related check number. Of the ten expenditure documents that contained a reference to a related check number, we noted two instances in which the document totals did not agree with the referenced check amount.

Recommendations

Homes of Hope Management:

- 9. Ensure supporting documentation such as invoices and receipts clearly indicate the purpose/use of funds.**
- 10. Require two signatures on checks issued for amounts greater than \$500.**

- 11. Ensure that invoices and receipts are marked “paid” or otherwise cancelled and that they are cross-referenced to the appropriate cancelled check.**

Payroll Controls

We reviewed the Agency’s payroll procedures and controls and noted the following deficiencies:

- Thirteen of 16 employee timecards selected for review were not available for our review. The Executive Director stated that the timecards were destroyed in the fire.
- Fifteen of 16 personnel files did not always document the authorized salary rates. According to the Circular, salaries and wages will be based on documented payroll rates approved by a responsible official of the organization. Typically, compensation rates are approved by an entity’s Board of Directors.
- The Agency did not maintain appropriate logs to account for employee benefit balances (i.e., vacation, sick leave, etc.).
- The Agency’s Employee Handbook, which identifies and informs employees of Agency policies and procedures, needs to be updated to reflect current Agency policies and procedures. This Handbook was last updated approximately four years ago.

Recommendations

Homes of Hope Management:

- 12. Ensure that a timecard is maintained for each employee and that the timecard is signed by the employee and his/her supervisor.**
- 13. Maintain authorized salary rate forms in each employee’s personnel file that documents the employee’s salary rate.**
- 14. Maintain appropriate logs to account for employee benefit balances.**
- 15. Update the Agency’s Employee Handbook to reflect current Agency policies and procedures.**

Accounting Procedures

We observed the following deficiencies in the Agency’s accounting procedures that reduced the reliance that could be placed on the accuracy and completeness of the records:

- The Agency's list of fixed assets did not contain detailed descriptions of the assets such as the serial number or model number and the location of the assets. According to the A-C Handbook, each contractor shall maintain a current listing of fixed assets which includes the item description, serial number, date of purchase, acquisition cost and source of funding.
- The Agency does not perform a physical inventory of its fixed assets. The A-C Handbook requires an inventory of all fixed assets be conducted at least annually to ensure that all assets are accounted for and maintained in proper working order.
- The Agency records transactions in the general ledger on a quarterly basis. The Agency should be recording the transactions on a contemporaneous basis to minimize the occurrence of errors and to provide management with more timely accounting information for making business decisions.

Recommendations

Homes of Hope Management:

- 16. Require an annual inventory of all fixed assets and ensure that the Agency's List of fixed assets is updated and contains detailed descriptions of the assets such as the serial number or model number and the location of the assets.**
- 17. Record transactions to the general ledger as they occur.**